

Trade Standards Compliance Capacities in East Asia

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Since 2012, in cooperation with the United Nations Industrial Development Organization (UNIDO), the Institute of Developing Economies, Japan External Trade Organization (IDE-JETRO) has analyzed the data on agri-food import rejections provided by the food safety regulatory authorities of major markets (Australia, EU, Japan, and US) and the results of the studies are published as Meeting Standards, Winning Markets – *Regional Trade Standards Compliance Report – East Asia 2013*. The report provides a detailed look at trade standards compliance issues facing East Asian countries that are exporting to the Japanese market and offers policy suggestions.

In the Japanese market, “Fish and fishery products” and “fruits and vegetables” are the categories rejected most frequently

In 2010, East Asian countries exported US\$149 billion worth of agri-food products, comparable to the value of exports from Latin America. However, some exports were rejected at the Japanese ports for non-compliance with food safety regulations.

Among exports from East Asian countries, those from China, Vietnam, Thailand, South Korea, and Indonesia are rejected most frequently in the Japanese market. “Fish and fishery products” and “fruits and vegetables” are rejected most frequently among agri-food products. The most common causes of import rejections are bacterial contamination, inadequate hygiene conditions and controls, and

the presence of pesticide residues, mycotoxins, and additives¹.

Challenges facing developing countries

Similar to trade in manufactured goods, trade in agri-food is organized along supply chains that involve multiple actors from different countries. To fully comply with requirements in importing markets, all actors along the supply chain must comply with the regulations. However, some are not fully aware of the regulations of the importing countries; such actors, of course, do not keep up with regulation changes.

Meeting public regulations, implementing well-known practices such as hazard analysis and critical control points (HACCP), and obtaining certificates for internationally recognized standards (ISOs) are necessary conditions to operate in this industry. Increasingly, there is a proliferation of private standards. This is adding yet another layer of complexity to entering the export markets, especially when there are numerous similar, yet different, private standards in existence.

To meet trade standards, industries are compartmentalizing

To meet the standards set by importing countries, exporting firms need to put in place traceability systems throughout their supply chains so that they can identify where the sources of problems are located and how to deal with them. Vertical

integration facilitates such a flow of information.

The implication of vertical integration is the compartmentalization of these industries into export-oriented and domestic-oriented segments. The industry is bifurcating: one group is mainly composed of large firms (and farms) that produce higher quality food meant for the export market and operate in well-organized supply chains; the other group is composed of smaller firms (and farms) of variable quality that are mainly focused on the domestic market.

Capacity-building efforts aimed at smallholder farmers are needed

Focused attention should be given to smallholder farmers. The study reveals that smallholder farmers lack sufficient knowledge on regulations and standards of importing countries. To improve upon this knowledge base, two efforts need to be undertaken. The first is to raise the awareness among farmers and processors on the proper use of inputs. Such efforts must be coupled with proper technical assistance so that the farmers can readily apply their knowledge in practice. In addition to these, the distribution of chemicals, medicines, and feeds needs to be tightly controlled and recorded more stringently to enable traceability. These efforts should be applied to a wider variety of relevant commodities to foster the rotation of crops and aquatic products and to prevent negative spillovers from other farming activities conducted nearby. Gradually improving domestic food safety regulations is also another avenue to improve export competitiveness.

Liberalization in foreign direct investment is beneficial

Finally, the presence of multinational corporations (MNCs) in the food processing and retail sector often provides great benefit to the development of the local industry. MNCs have enough experience and capacity to meet the requirements set by importing countries and tend to provide the necessary technical assistance to local producers. Through these kinds of vertical technology transfer, the competitiveness of local industries can be greatly enhanced. Thus, in addition to strengthening capabilities through domestic efforts, liberalization of foreign direct investment in these sectors could be pursued simultaneously. This strategy will also lead to improvements in the general food safety levels in domestic markets.

1. In other markets, the commodities rejected and the reason for rejections vary. For details, please see the East Asian Trade Standards Compliance Report (ATSCR) 2013, which can be downloaded from http://www.ide.go.jp/English/Publish/Download/Collabo/UNIDO_2013.html.

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